

Domestic Crude Oil Supply Obligation Regulations

In exercise of the powers conferred upon the Commission by section 109(2) of the Petroleum Industry Act, 2021 and all other powers enabling the Commission in that behalf, the Commission hereby makes the following Regulations.

(1) Objectives

- 1) The objective of these regulations is to provide the general rules for the Curtailment of production and utilisation of the produced Petroleum in terms of Export and Domestic Supply obligation pursuant to sections 8(c) and 109 of the Petroleum Industry Act (the "Act").

(2) Optimal withdrawal of Petroleum from Reservoirs

- (1) No lessee shall obtain regular production from a well that has been tested, without an approved Technical Allowable Rates (TAR) and Production Quota from the Commission.
- (2) The Commission shall base the determination of Technical Allowable Rates on the results of Maximum Efficiency Rates (MER) tests conducted by the lessee, duly witnessed and validated by representative(s) of the Commission
- (3) All lessees shall ensure compliance with the submission of MER test results within the deadline issued by the Commission.
- (4) The Commission shall base the determination of Production quota on the following: -
 - a) Approved Technical Allowable Rate
 - b) Achieved Maximum Economic Recovery
 - c) Economic and other considerations as deemed appropriate by the Commission

- (5) The Technical Allowable Rates shall be for a period of 6 months while the Production Quota shall be for a shorter period as may be determined by the Commission.
- (6) All lessees shall ensure that no other means is used to curtail production from any well or pool or reservoir other than the Production quota issued by the Commission.
- (7) The Technical Allowable Rates and Production quota shall serve as the basis for measuring production performance from relevant wells and pools or reservoirs.
- (8) Where the Minister of petroleum gives a directive in line with section 3(2) of the Act cutting back the levels of crude oil or condensate production during a period, such directive shall supersede any allocated production quota and the Commission shall issue a new production quota for the period.
- (9) The Lessee shall ensure an optimal utilization of the production quota in such a manner as to ensure the opening and closing of wells do not fall outside the approved Technical Allowable Rates.
- (10) If due to operational or other reasons, a lessee is unable to fully utilize the quota, the reason for the shortfall shall be communicated to the Commission in writing within 30 days of the occurrence of the event that cause the underutilization. The event shall be reported in the periodic petroleum production report to the Commission or in any other form of report ordered by the Commission.
- (11) All Crude oil or condensates produced by a lessee based on the allocated petroleum production quota shall be subject to domestic supply obligations imposed by the Commission

(3) National Crude Oil Requirement of Refineries

- 1) The Commission shall base the allocation of the domestic crude oil supply obligation applicable to the respective lessees on the National Crude Oil Demand requirement supply curve, which is the

supply curve of crude oil or condensate that can be supplied on a voluntary basis at the prevailing international market price.

- 2) The Authority shall supply the Commission on a regular basis, the crude oil requirements of refineries in operation in the country.

(4) Allocation of domestic crude oil supply obligation requirement on lessees (S.109(4))

- 1) The Commission shall establish a national supply curve for the supply of crude oil to the domestic market which shall be an aggregate of the crude oil requirement by all the refineries in operation in Nigeria.
- 2) The Authority shall on a quarterly basis transmit to the Commission the national crude oil demand of all domestic refineries for the quarter which shall be the basis for the determination of the national crude oil supply curve.
- 3) The commission shall identify on the supply curve the producing fields that meet the quality requirements of the willing buyers, while considering the production quota and performance profile under Section 2 of this regulation.
- 4) Where the level or quality parameters of crude oil production of willing sellers will not meet the national crude oil demand of refineries in operations, the Commission shall identify other field(s) or blend(s) that meet up the quality requirements for the shortfall, taking into account, the production quota and performance profile under sub-sections 2 of this regulation.
- 5) The Commission shall, pursuant subsection 4 order the allocation of domestic crude oil supply obligations in the sequence of applicable field(s) or blend(s), ranking them from maximum to the minimum level of quality for each of the refineries in operations.
- 6) The volume of crude oil that a lessee shall dedicate to the DCSO shall be based on an allocation system determined by the Commission.
- 7) A lessee shall, in complying with its DCSO ensure that's-

- a) The allocated crude oil may only be sold to holders of crude oil refining licenses, whose refineries are in operation.
 - b) The supply of crude oil shall be commercially negotiated between the lessee and the crude oil refining licensee, having regard to the prevailing international market price for similar grades of crude oil.
 - c) The buyer shall provide payment guarantees as required by the applicable seller.
 - d) The payment for crude oil purchased pursuant to the obligations shall be in US dollars or Naira, as may be agreed between the seller and the buyer
- 8) A lessee who has not complied with his DCSO were a willing buyer(s) exist shall not be granted an export permit for the export of crude oil from his lease area.
 - 9) Where due to operational or other reasons, the production level in each month falls below the allocated quota for such month, the lessees shall ensure that the domestic supply obligations for that month takes precedence over export.
 - 10) The Commission shall take all necessary steps that will be required to ensure the following: -
 - a. avoid inadequate supply of the Domestic crude oil obligations from the lessees.
 - b. Obtain details of shortages or inadequate supply conditions occur from the Authority for sanctions

5) Violations and penalties for non-compliance to section 109 of the Act

- 1) A lessee who fails to comply with the DCSO shall incur a penalty of 50% of the Fiscal Price per barrels not delivered, payable to the Commission

- 2) A lessee shall not incur penalty prescribed under this regulation, where the lessee proves to the satisfaction of the Commission that, the failure to comply is a result of:
- a) Force majeure
 - b) Inability of buyer to accept allocated Crude volumes.
 - c) Inability to transport the allocated Crude for reasons beyond the control of the buyer or the lessee
 - d) Failure of buyer to pay for the allocated Crude volumes
 - e) Any other reason acceptable to the Commission

Definitions

In addition to the definitions contained in Section 318 the Petroleum Industry Act, 2021, the following definitions apply to these Regulations:

“ Act” means Petroleum Industry Act, 2021.

“Dollar” or “\$” or “US \$” or “US Dollar” means United States Dollar.

“Blend” means a mixture of crude oil and/or condensate from two or more fields

“field” refers to any hydrocarbon accumulation, which is contained in a single hydrocarbon bearing reservoir or multiple reservoirs, which may be overlapping or non-overlapping or stacked reservoirs, which may include separated pools and are defined by a geological trap.

“National Crude Oil demand requirement supply curve” is the supply curve determined pursuant to paragraph 3 of these Regulations.

“Production Quota” refers to daily production level a lessee is allowed to produce as determined by the Commission

“Pool” means reservoirs under secondary energy support for the purpose of enhancing recovery of petroleum

“Technical Allowable Rate” Means the assigned daily subsurface withdrawal limit, which could be Minimum or Maximum permissible rate or both

“Maximum Economic Recovery” are natural gas resources that are planned for energy use in the field or for re-injection for the purposes of enhancing recovery of petroleum

“Maximum Efficiency Rate” means the maximum sustainable daily oil and gas withdrawal rate from a reservoir that will permit economic development and depletion of that reservoir without detriment to ultimate recovery.

“Well,” a borehole or conduit drilled to establish communication between surface and subsurface fluid production

“Fiscal Price,” means prices determined by the Commission for the computation of Royalty.

Citation

These Regulations may be cited as the Domestic Crude Oil Supply Obligation Regulations, 2022

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